News release

Weather derivatives market comes of age

12 August 2003

The Met Office and its joint venture company, Weather Xchange Limited (weatherXchange) and Chicago Mercantile Exchange Inc. (CME), today announced plans to jointly develop global weather futures and options contracts.

Specifically, CME, the Met Office and weatherXchange plan to introduce a series of CME-Met Office futures and options on futures contracts based on weather indexes, including Heating Degree Days (HDD) and Cumulative Average Temperature (CAT). The new global weather contracts for six initial sites in Europe are expected to be launched later this year, pending review and approval by the Commodity Futures Trading Commission. All weather futures and options created through this relationship will trade on CME.

The U.K.-based Met Office is one of the world's leading weather forecasters and providers of environmental and weather-related services. weatherXchange provides data products, indexes and OTC brokerage services for weather risk management. CME, the largest futures exchange in the United States, was the first exchange to introduce weather-based futures in 1999.

CME also signed a letter of intent with the Met Office and weatherXchange to make an initial equity investment of $800,000 in weatherXchange in the third quarter of 2003. Depending on the trading activity generated by the contracts and other performance measurements, CME's investment in the venture could rise to as much as $1.8 million over the next three years. As part of the agreement, CME also will be granted one seat on the weatherXchange Board of Directors.

Met Office Chief Executive Peter Ewins said, "We are delighted to be working on this important initiative with CME, which has established itself as a global leader in exchange-traded, weather-based derivatives products. As global weather conditions grow increasingly extreme, CME-Met Office weather derivatives will serve a significant need in the business community."
"Weather is a new frontier, as businesses from across the economy recognize the benefit of using exchange-traded and cleared derivatives to manage the financial risks associated with changing weather conditions," said CME Chairman Terry Duffy. "In 1999, CME introduced its innovative weather product line by launching U.S.-based weather futures and options contracts, including Heating Degree Day Index futures and options and Cooling Degree Day Index futures and options. Year-to-date volume for these contracts is up nearly 400 percent from the same time last year, with both volume and the number of participants continuing to grow."

CME President and CEO Jim McNulty said, "We are very pleased to be able to work with the Met Office and weatherXchange to develop exchange products that will allow us to meet this increasing risk management need on a global basis. By combining the Met Office's extensive knowledge of meteorology and weatherXchange's expertise in the European markets with our own expertise in developing futures contracts for the U.S. weather market, we look forward to providing sophisticated new tools that will help users manage the unpredictable financial risks associated with weather fluctuations."

A recent industry survey by PriceWaterhouseCoopers revealed that weather derivatives transactions grew threefold between April 2002 and March 2003, indicating that weather risk management is becoming increasingly essential in the risk management strategy of many companies.

Traditionally, weather forecasts are essentially a "most likely outcome," a technique known as deterministic forecasting. To make informed planning and operational decisions, businesses also must have an idea of the uncertainty of the forecast. The Met Office also produces probabilistic forecasts, derived from multiple forecast model runs, which give more meaningful advice, as they can provide a range of likely forecasts coupled with the degree of uncertainty for each.

"We have long believed that weather risk management has the potential to become one of the most important global financial markets," said weatherXchange Managing Director Cindy Dawes. "We hope that this exciting new relationship with CME will transform the weather market and establish weather derivatives as a mainstream financial tool."

Chicago Mercantile Exchange Inc. is the largest futures exchange in the United States. As an international marketplace, CME brings together buyers and sellers on its trading floors and GLOBEX® around-the-clock electronic trading platform. CME offers futures and options on futures primarily in four product areas: interest rates, stock indexes, foreign exchange and commodities. The exchange moved about $1.5 billion per day in settlement payments in the first half of 2003 and managed $29.1 billion in collateral deposits at June 30, 2003. CME is a wholly owned subsidiary of Chicago Mercantile Exchange Holdings Inc. (NYSE: CME), which is part of the Russell 1000® Index.

The Met Office is one of the world's leading providers of weather forecasts and environmental and weather-related services. Its solutions and services meet the needs of many communities of interest from the general public, government and schools, through broadcasters and online media, to civil aviation and almost every other industry sector - in the U.K. and around the world.

weatherXchange Ltd. is a joint venture with the Met Office, was established in May 2001 as the definitive European resource for weather risk management that brings together people with years of experience in the financial derivative markets with the meteorological expertise of the Met Office, thereby providing unique weather risk management solutions.

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Further information about CME and its products

Further information about weatherXchange

For further information:
Met Office Press Office +44 (0)1392 886655

Met Office Customer Centre 0870 900 0100
If you're outside the UK +44 (0)1392 885680

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